

Minority Views

IRRESOLUTION ON THE BUDGET

“It’s always easier to defer, to kick the can down the road to avoid making choices.”—*Senate Budget Committee Chairman Kent Conrad, on 60 Minutes, 4 March 2007.*

The document reported by the Committee on the Budget reflects a staggering set of contradictions. While claiming to reject the largest tax increase in American history, the measure’s revenue figures rely on that very tax hike to reach balance. While promising more than \$115 billion in new spending initiatives, the document’s allocations support none of them. Having heard extensive testimony about the need to reform government entitlements, the Democrats could offer no more than a negligible \$75 million in reconciled savings—and that only as a gimmick to protect a forthcoming reauthorization bill from a Senate filibuster; and the savings are spent elsewhere anyway.

If a budget is a plan for financing one’s objectives, whatever they are—if it assigns dollars to specific goals—the Democrat measure is not a budget. If budgeting is intrinsic to governing, the Democrat proposal does neither; and it offers no resolution of the principal fiscal issues that face the Nation and the government.

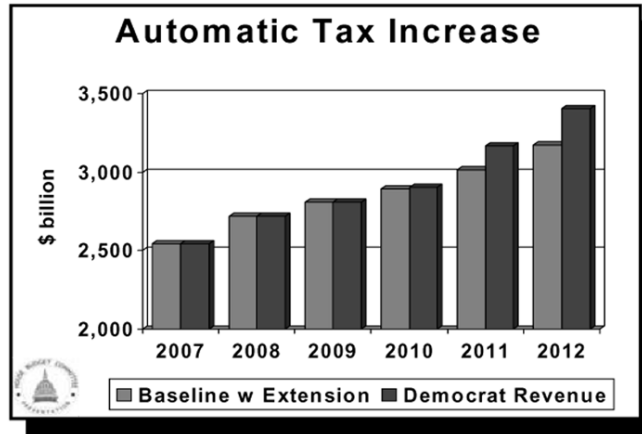
But if taken seriously, the Democrat budget insists that the right formula for America is bigger government, more spending, and ever-higher taxes. It fails completely to recognize a fundamental truth expressed by President Reagan in his first inaugural: “We are a Nation that has a government—not the other way around.”

The Democrat budget proposes the largest tax increase in American history—\$392.5 billion over 5 years—mainly to finance immense new spending through 2012. It also puts off entitlement reform for at least 5 years, despite repeated warnings during committee hearings that delaying reform invites a fiscal and economic crisis for these programs.

The principal failures of the Democrat budget are described below.

HIGHER TAXES

The Largest Tax Increase in History. Although the Democrats try to claim otherwise, revenue numbers in the budget clearly show tax increases totaling \$392.5 billion over 5 years, compared with retaining provisions of the 2001 and 2003 tax laws that are currently in place. Taxes increase by \$231 billion in 2012 alone, which is even greater than the \$153-billion surplus the budget claims.

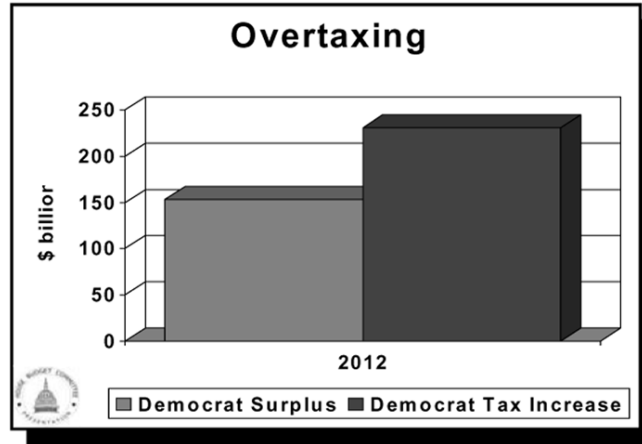


Tax Increases Are Widespread. Tax increases would hit middle-income families, low-income earners, families with children, small businesses, and a range of others. Here is a sampling of the implicit tax increases:

Tax Increase	5-Year Total
Increase in Marginal Rates	\$182 billion
Reduction of Child Tax Credit	\$27 billion
Increase in Marriage Penalty	\$13 billion
Increase in Death Tax	\$91 billion
Increase in Capital Gains and Dividends Tax Rates	\$32.5 billion
Other Tax Increases	\$47 billion

The budget contains language, in its novel “Policy” title (Title IV) claiming its intent to protect current tax rates, and not to raise taxes. But the language is not supported by the budget figures, which embrace the automatic tax increases. Further, as noted, the Democrat budget cannot reach balance without them.

Sets the Stage for at Least \$115 Billion in Further Tax Hikes. Ten of the budget’s 12 “reserve funds” call for more than \$115 billion in higher spending if offset with commensurate savings or—as is far more likely—higher taxes.



Ignoring Economic Consequences. These massive tax increases would likely reverse the economic gains that have developed since adoption of the 2001 and 2003 tax laws, which include: 7.6 million new jobs—an average of 168,500 per month; growth in real gross domestic product [GDP] of 3.5 percent per year over the past 15 quarters; increased business investment for the past 15 quarters; and a Dow Jones Industrial average roughly 41 percent higher than the 2003 level.

Ignoring Fiscal Benefits. The Democrat tax increases also threaten the substantial deficit reduction that has occurred in the past several years.

- Revenue increased in double-digit percentages in 2005 and 2006, and 9.3 percent in the first five months of fiscal year 2007—reaching 18.5 percent of GDP, higher than the average of the past four decades.
- This revenue growth has been the principal factor in reducing the budget deficit from \$412.7 billion in 2004 to an estimated \$176 billion this year, according to the Congressional Budget Office.

No AMT Fix. The Democrats *fail to provide, in their numbers, even a one-year patch for the alternative minimum tax [AMT]*. Instead, the budget employs a “reserve fund” that allows AMT relief only if offset by equivalent tax increases or spending cuts—which are not spelled out. The budget also fails to extend the research and development credit and other routine tax provisions.

The ‘Mystical Tax Gap.’ The budget includes budget enforcement language allowing an unspecified amount of increased appropriations to improve tax compliance—apparently seeking to close the so-called “tax gap.” The Commissioner of the Internal Revenue Service has testified the IRS could collect, at best, about \$20 billion of these taxes 5 years after implementing specific policies recommended in the President’s budget. Yet the Democrats, during markup, insisted that closing the mystical tax gap could prevent many of the tax increases their budget contains.

HUGE SPENDING INCREASES

Hefty Year-to-Year Appropriations Increase. Having already increased current-year spending by \$6.1 billion, and adding more than \$20 billion to the Iraq supplemental, Democrats in their budget propose another increase of more than \$22.5 billion in non-defense, nonemergency annual appropriations for fiscal year 2008.

Increases ‘Advance Appropriations.’ The budget also increases by about \$2 billion, to \$25.6 billion, the amount that can be appropriated in fiscal year 2009 or later.

Outspends Inflation Later. For the years 2009-12, the budget assumes annual nondefense, nonemergency appropriations will increase by an average of 2.4 percent per year, which is still greater than the projected rate of inflation.

Reckless Entitlement Spending Increases. Despite warnings by numerous witnesses about the unsustainable rate of entitlement spending, the budget’s reserve funds nevertheless provide for higher mandatory spending. As noted above, 10 of the budget’s 12 “reserve funds” create avenues for more than \$115 billion in higher spending if offset with higher taxes (or spending reductions, which appear nowhere in the Democrat proposal).

NO SIGNIFICANT REFORM OR OFFSETS

THE NEED FOR ENTITLEMENT REFORM

During committee hearings over the past several weeks, a series of expert witnesses testified to the unsustainable growth of entitlement programs—especially Medicare and Medicaid—and the urgent need to begin reforming them. Among the most significant statements from these hearings were the following:

- Without “early and meaningful action” to address the rapid growth of entitlements, “the U.S. economy could be seriously weakened, with future generations bearing much of the cost.”—*Federal Reserve Chairman Ben S. Bernanke, Budget Committee hearing, 28 February 2007.*
- “Health care is the number one fiscal challenge for the Federal and State governments * * * it is the number one competitiveness challenge for American business; and * * * it is a growing challenge for American families. If there is one thing that can bankrupt America, it is health care. We need dramatic and fundamental reforms.”—*Comptroller General David M. Walker, Budget Committee hearing, 23 January 2007.*
- The rising costs of government entitlements are a “fiscal cancer” that threatens “catastrophic consequences for our country” and could “bankrupt America.”—*Comptroller General Walker on 60 Minutes, 4 March 2007.*

A legion of facts support these concerns:

- Even if taxes were increased by \$392.5 billion in the next 5 years, as proposed in the Democrat budget, Federal spending at its current rate will outpace Federal revenue by increasing amounts over the next several decades—mainly due to entitle-

ments, which are growing at an average of 6 percent per year—twice as fast as inflation, and faster than the entire economy.

- The principal drivers of this problem are Medicare and Medicaid, which are growing at 7 percent to 8 percent per year. Even if the budget were balanced today, these two programs *alone* would drive it right back into deficit. With the forthcoming retirement of the baby boomers, the situation will only get worse.
- By 2040, three entitlement programs—Social Security, Medicare, and Medicaid alone—will consume 20 percent of the Nation's economy. That is equivalent to the cost of the entire Federal Government today; and it will take twice the current rate of taxes *just to maintain the current level of entitlement benefits*.
- In less than a decade, entitlements will take up 62 percent of the entire Federal budget—and they will keep growing until they crowd out all other spending—including education, science, the environment, agriculture, and even homeland security and defense.

But this challenge is also an *opportunity*—an opportunity to make these programs better, more efficient, more responsive, more sustainable for the future.

DEMOCRAT BUDGET IGNORES THE WARNINGS— AND THE OPPORTUNITY

Ignoring all of this, however, the Democrat budget puts off any significant reform for at least 5 years—allowing the problem to worsen. Instead, it succumbs to the temptation noted by Senate Budget Committee Chairman Kent Conrad: “It’s always easier to defer, to kick the can down the road to avoid making choices.” (*60 Minutes*, 4 March 2007.)

The only savings in the budget are a negligible \$75 million reconciled to the Education and Labor Committee (which is merely a lever to get higher education reauthorization considered under reconciliation procedures and the savings are spent elsewhere); and \$410 million in receipts from selling defense commodities such as Tungsten. These are not reforms, and they do nothing to address the massive entitlement problem. In contrast, the Deficit Reduction Act of 2005 saved nearly \$40 billion over 5 years, and the President’s budget for fiscal year 2008 proposed \$96 billion in mandatory savings.

OTHER FAILURES OF THE DEMOCRAT BUDGET

Here are some of the other flaws in the budget:

NO ACCOUNTABILITY

Retains Bias Favoring Higher Spending, Higher Taxes. The budget assumes that tax relief expires—causing automatic tax increases—but spending programs continue indefinitely.

Fails to Strengthen PAYGO. It retains the weak House pay-as-you-go [PAYGO] rule, which allows Democrats to chase higher spending with higher taxes, and to enact spending increases immediately with savings that do not occur until later.

No Emergency Set-Aside. The budget eliminates the domestic emergency set-aside contained in the current budget resolution, and provides no criteria for domestic emergency spending—which is exempt from budget disciplines.

GIMMICKS

Straw Man Reserve Funds. Instead of providing funding for promised initiatives, the budget includes 10 reserve funds that promise extra funding for pet initiatives if offsets are included. The reserve funds have no real effect because budget rules already permit initiatives not assumed in the budget to be financed by offsets.

No Defense Firewall. By not imposing a firewall around defense, the budget allows Democrats to continue moving money from defense to nondefense, as they did with Base Realignment and Closure [BRAC] Commission funding.

DOUBLE STANDARD

No AMT Reform. After repeatedly blasting Republicans for failing to provide a permanent reform of the alternative minimum tax [AMT], the Democrat budget *fails to provide even a one-year patch*. Instead the budget employs a “reserve fund” that allows AMT relief only if offset by equivalent tax increases or spending cuts—which are not spelled out.

No Additional Iraq Funding. The budget adopts the President’s requested levels for Iraq funding. Yet after criticizing the President for showing no Iraq funding after 2009, the budget adopts the same policy.

CONCLUSION

Budgeting is the process of fleshing out policy objectives with the substance of financial resources. But the Democrat proposal fails this basic reason for writing a budget: it is all intention with no real follow-through.

If taken seriously, however, the Democrat budget insists that the answer to America’s challenges is more government, more spending, more taxes. This has never been the correct answer—and it isn’t now.